

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05

CEA-01 PA-02 PRS-01 AGRE-00 /094 W

-----007242 080241Z /20

R 071521Z OCT 77

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 9140

INFO AMCONSUL JOHANNESBURG

AMCONSUL DURBAN

AMCONSUL CAPE TOWN

UNCLAS SECTION 1 OF 2 PRETORIA 5372

E.O. 11652: N/A

TAGS: ECON, SF

SUBJECT: RESERVE BANK QUARTERLY REPORT AND OTHER ECONOMIC PROJECTIONS

REF: PRETORIA 3227

1. SUMMARY: QUARTERLY REPORT OF RESERVE BANK COVERING SECOND QUARTER OF 1977 SHOWS SOMEWHAT IMPROVED ECONOMIC CONDITIONS WITH AGRICULTURE AND MINING CONTINUING STRONG RATES OF GROWTH WHILE DECLINES IN OTHER SECTORS EITHER LARGELY HALTED OR AT REDUCED RATE. ON BALANCE OF PAYMENTS, CURRENT ACCOUNT SHOWED SURPLUS OF R361 MILLION ( ONE RAND EQUALS \$1.15), LARGEST IN FIVE YEARS, BUT NET OUTFLOW OF BOTH LONG-TERM AND SHORT-TERM CAPITAL PREVENTED ANY IMPROVEMENT IN NET FOREIGN EXCHANGE RESERVES. PRIVATE SECTOR ECONOMISTS AGREE ECONOMY HAS CEASED ITS DOWNWARD SLIDE AND SEE TENTATIVE INDICATIONS THAT ECONOMY IS STARTING TO TURN SLOWLY UPWARD. HOWEVER, THEY NOTE THAT, OUTSIDE THE PRIMARY SECTORS, THIS MOVEMENT IS NEITHER STRONG NOR BROADLY BASED AND ARE THEREFORE CALLING UNCLASSIFIED

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FOR AN EARLY IMPEMENTATION OFGOVERNMENT'S PROGRAM OF SELECTIVE STIMULATION TO PUT GREATER FORCE BEHIND THE UPTURN.  
END SUMMARY:

2. SINCE PORTIONS OF DATA IN SEPTEMBER QUARTERLY REPORT OF RESERVE BANK WERE SUMMARIZED INBANK'S AUGUST ANNUAL REPORT ( REFTTEL), THIS REPORT WILL BE OF MORE LIMITED

SCOPE THAN USUAL.

3. NATIONAL ACCOUNTS: GDP AT CONSTANT PRICES GREW BY 12 0/0 IN SECOND QUARTER AT ANNUAL RATE. MOST OF THIS WAS DUE TO INFLUENCE OF BUMPER AGRICULTURAL HARVEST BUT EVEN GDP IN NON-AGRICULTURAL SECTORS INCREASED BY 2 0/0, THE FIRST SUCH INCREASE IN FIVE QUARTERS. MINING AND SERVICES WERE UP WHILE MANUFACTURING WAS STABLE AND CONSTRUCTION AND TRADE DOWN. GDP AT CURRENT PRICES AMOUNTED TO R8,54 MILLION IN SECOND QUARTER OR R33,240 MILLION AT SEASONALLY ADJUSTED ANNUAL RATE.

4. BALANCE OF PAYMENTS: CURRENT ACCOUNT WAS IN SURPLUS BY R361 MILLION IN SECOND QUARTER COMPARED TO SURPLUS OF R47 MILLION IN FIRST QUARTER. AT SEASONALLY ADJUSTED ANNUAL RATE, SURPLUS WAS R1,277 MILLION IN SECOND QUARTER COMPARED TO DEFICIT OF R262 MILLION IN FIRST QUARTER. SECOND QUARTER THUS SHOWED FIRST SURPLUS AT ANNUAL RATE SINCE 1973. MERCHANDISE EXPORTS INCREASED FOR FIFTH CONSECUTIVE QUARTER TO R1,668 MILLION, WHILE IMPORTS WERE DOWN 5 0/0 FROM PREVIOUS QUARTER TO R1,649 MILLION. NET GOLD OUTPUT WAS UP 15 0/0 TO R701 MILLION. DETERIORATION IN CAPITAL ACCOUNT, HOWEVER, SLIGHTLY MORE THAN MATCHED IMPROVEMENT IN CURRENT ACCOUNT WITH LONG-TERM CAPITAL OUTFLOW OF R76 MILLION ( THE FIRST SUCH QUARTERLY OUTFLOW IN FIVE YEARS) AND A SHORT-TERM OUTFLOW OF R298 UNCLASSIFIED

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MILLION ( NOT RELATED TO RESERVE TRANSACTIONS). GROSS GOLD AND FOREIGN EXCHANGE RESERVES GREW BY R92 MILLION IN THE QUARTER BUT THE KEY NET FOREIGN EXCHANGE RESERVES DECLINED BY R13 MILLION.

5. PRICES: CONSUMER PRICE INDEX GREW BY 11.8 0/0 ( ANNUAL RATE) IN SECOND QUARTER, DOWN FROM 13.3 0/0 IN FIRST QUARTER. REPORT SHOWS UNEMPLOYMENT CONTINUES TO RISE STEADILY WITH AUGUST REGISTERED UNEMPLOYMENT ( ONLY A SMALL PORTION OF TOTAL) AT 51,500. DOUBLE THE JANUARY LEVEL.

6. BUSINESS CYCLES: THE RESERVE BANK CONCLUDES THAT RECESSIONARY CONDITIONS STILL EXIST IN THE ECONOMY BUT THESE CONDITIONS ARE BEING MITIGATED BY A HIGH LEVEL OF ACTIVITY IN PRIMARY SECTORS AND MORE STABLE TRENDS IN CERTAIN OTHER SECTORS SUCH AS MANUFACTURING PRODUCTION.

7. VIEWS OF PRIVATE SECTOR: REPORT REFLECTS TRADITIONAL CONSERVATIVE APPROACH OF RESERVE BANK TO ECONOMIC FORECASTING. HOWEVER, NUMEROUS PRIVATE SECTOR ECONOMISTS HAVE IN LAST MONTH REPORTED EVIDENCE OF GRADUAL UPTURN. ECONOMIC DEPARTMENTS OF BOTH STANDARD

AND BARCLAY'S BANKS, AND ECONOMIST OF THE FEDERATED  
CHAMBER OF INDUSTRIES (FCI) ALL PROJECT A GRADUAL IMPROVEMENT  
IN CONDITIONS OVER NEXT SIX MONTHS.

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THEY CITE, BESIDES THE STRONG PRIMARY SECTORS,  
A SLIGHT UPTURN IN VOLUME OF MANUFACTURING PRODUCTION ( UP 0.4 0/0  
IN MAY-JULY COMPARED TO PREVIOUS THREE MONTHS), A SMALL IMPROVEMENT  
IN RETAIL SALES, AND ARECENT UNIVERSITY OF STELLENBOSCH SURVEY  
NOTING SOME IMPROVEMENT IN CONSUMER CONFIDENCE. TWO BANK ECONOMISTS  
HAVE RECENTLY PROJECTED A 3-3.5 0/0 RATE OF GROWTH ON REAL GDP IN  
1978. HOWEVER, VIRTUALLY ALL ECONOMISTS INJECTED A STRONG MEASURE OF  
CAUTION IN THEIR FORECASTS, NOTING: 1) MANY SECTORS SUCH AS  
CONSTRUCTION AND MANY MANUFACTURING AREAS CONTINUE TO DECLINE;  
2) WHILE GOLD PRICES ARE UP, PRICES FOR OTHER MINERAL EXPORTS ARE  
WEAKENING; 3) UNEMPLOYMENT IS CONTINUING TO RISE STEADILY; 4)  
UNCERTAIN  
POLITICAL ENVIRONMENT, PARTICULARLY FEAR OF FOREIGN BOYCOTTS.  
THE ECONOMISTS AND BUSINESS ORGANIZATIONS HAVE, THEREFORE, CALLED  
UPON THE GOVERNMENT TO MOVE FORWARD RAPIDLY WITH ITS MODEST R300  
MILLION  
PROGRAM OF SELECTIVE STIMULATION FOCUSED ON HOUSING FOR BLACKS TO HELP

VERY TENTATIVE UPTURN ALONG.

8. COMMENT: REASON FOR LONG-TERM CAPITAL OUTFLOW IS GIVEN BY RESERVE  
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BANK AS NET REPAYMENTS OF FOREIGN LOANS PARTICULARLY BY PUBLIC CORPORATIONS AND LOCAL AUTHORITIES WHICH REPAID A NET R61 MILLION. AS A HABITUAL IMPORTER OF CAPITAL, THIS SHIFT IS OF SPECIAL CONCERN TO

SAG, REFLECTING DIFFICULTY IN ATTRACTING NEW LONG-TERM LOANS AND DIRECT INVESTMENT. WHILE SHORT-TERM OUTFLOWS ARE LARGER, RESERVE BANK OFFICIALS VIEW THEM WITH LESS CONCERN BECAUSE SHORT-TERM LOANS ARE STILL AVAILABLE AND OUTFLOW STEMS LARGELY FROM PAYING OFF OF TRADE CREDITS, ARISING FROM LOWER IMPORTS AND OTHER SHORT-TERM PRIVATE SECTOR BORROWINGS.

9. AS SOME BUSINESSMEN COMPLAINED DURING RECENT FCI CONFERENCE, PRE-ELECTION TACTICS OF GOVERNMENT OF STRESSING DANGER OF ECONOMIC SANCTIONS SEEM ESPECIALLY ILL-TIMED WHEN FAINT STIRRINGS OF REVIVAL FINALLY BEING SENSED. BOWDLER

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009